

Trump Administration's Proposed Removal of Generalized System of Preferences (GSP) Benefits for India and Turkey

March 15, 2019

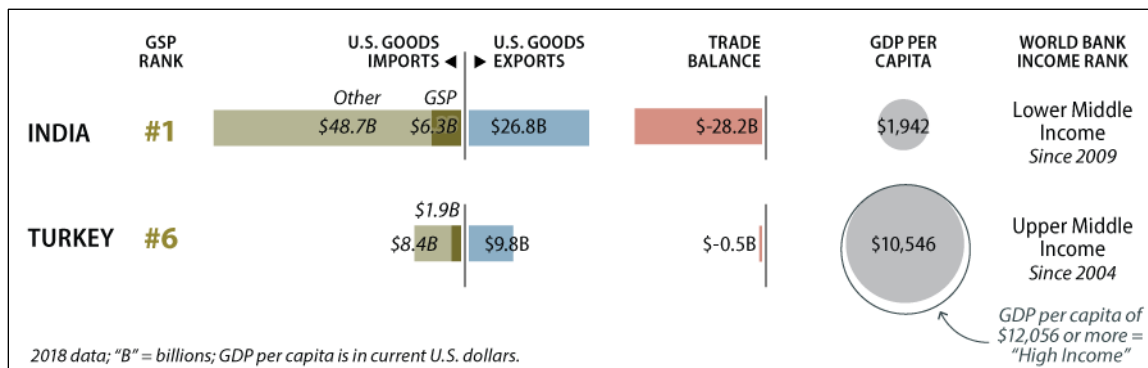
On March 4, 2019, President Trump notified Congress of his intent to terminate [India's](#) and [Turkey's](#) eligibility for the Generalized System of Preferences (GSP), a U.S. trade program that provides nonreciprocal, duty-free tariff treatment to certain products imported from designated beneficiary developing countries (BDCs), in order to grow and develop their economies. Potential eligibility changes are subject to annual review and public notice and comment. The President's determination on India arose from a review of the country's market access practices; for Turkey, it was due to the country's increased level of economic development. By law, the President must notify Congress at least 60 days before a GSP status change may take effect. Congress may hold hearings, work with the U.S. Trade Representative (USTR) on alternative strategies, and/or enact legislation to modify or reverse the President's determination.

In 2018, India was the largest BDC (representing over 25% of U.S. imports under GSP); Turkey was the sixth-largest (**Figure 1**). Top U.S. GSP imports from India include chemicals, auto parts, and tableware; those from Turkey include gold necklaces, monumental and building stone (i.e., granite), and candy. GSP removal would raise prices for U.S. imports; it would reinstitute U.S. tariffs, which, for instance, range between 1% and 7% on the top 15 U.S. GSP imports from India, and between 1.9% and 5.5% on the top 15 U.S. GSP imports from Turkey. U.S. trading relationships with these countries have broader U.S. strategic significance; India is a "strategic partner" and Turkey is a NATO ally.

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IN11075

Figure 1. U.S. Bilateral Trade with India and Turkey

Source: CRS, using trade data from the U.S. International Trade Commission.

Note: Trade data are for "imports for consumption" and "domestic exports."

GSP Eligibility Reviews and Recommendations

Enacted in 1974, GSP is reauthorized until December 31, 2020 (P.L. 115-141). Other advanced countries have similar programs. Under GSP, the President may designate countries as BDCs based on specific criteria ([19 U.S.C. 2462](#)). BDCs are subject to [periodic reviews](#) with the criteria, as requested by interested stakeholders, or at the initiative of the GSP Subcommittee of the USTR-led interagency Trade Policy Staff Committee (TPSC). In October 2017, [USTR announced](#) a new "proactive" process for ensuring BDCs' compliance with the eligibility criteria. Drawing from TPSC advice, the President may grant, suspend, or terminate GSP country designation at any time, but must notify Congress at least 60 days before taking action.

Reviews of [India's](#) and [Turkey's](#) eligibility commenced in 2018. Interested stakeholders submitted comments in the *Federal Register* and testified at USTR-led hearings. Both India and Turkey requested continuation of their eligibility.

Regarding India, the President determined "after intensive [bilateral] engagement ... India has not assured the United States that it will provide equitable and reasonable access to the markets of India"—a GSP eligibility criterion. This determination followed a review of India's market access practices by the GSP Subcommittee. One basis for review were petitions that [USTR accepted](#) from U.S. dairy exporters and medical technology producers, asserting that India had not provided "equitable and reasonable access to its market." The GSP Subcommittee also initiated a review based on concerns raised in the [2018 National Trade Estimate Report on Trade Barriers](#) that India "has implemented a wide array of trade barriers that create serious negative effects on U.S. commerce."

As for Turkey, the President's determination was based on the country's increased level of economic development, another GSP eligibility criterion. The President said, "in the four and a half decades since Turkey's designation as a GSP [BDC], Turkey's economy has grown and diversified." Turkey was also the subject of a GSP [country practice review](#) launched in August 2018 on its market access policies due to tariff increases on U.S. products in retaliation for the U.S. national security-based "[Section 322](#)" tariffs on steel (25%) and aluminum (10%).

Bilateral Trade Relations

The President's decision may add to current frictions in U.S. bilateral trade and economic relations with India and Turkey, which were respectively, the 9th- and 32nd-largest U.S. goods trading partners (two-way

trade) in 2018. These countries represent potential growing markets for U.S. trade and investment, but tariff and nontariff barriers have constrained expansion of economic ties.

President Trump blames India's "unfair" trading practices for the U.S. trade deficit with India. Calling India "a very high-tariff nation," he has criticized tariff imbalances, for instance, on [motorcycles](#), which were previously subject to a 100% tariff by India (now 50%), compared to tariffs of 0% to 2.4% by the United States. India's broader pattern of tariff hikes, including on consumer electronic products, elevates U.S. concern.

The "Section 232" tariffs are a source of friction for India and Turkey, neither of whom are exempt from the tariffs. While India has delayed applying retaliatory tariffs in hopes of a bilateral resolution to the issue, Turkey applied retaliatory tariffs in June 2018. The U.S.-Turkish tit-for-tat dynamic of tariffs escalated in August 2018, amid bilateral differences over Turkey's continued detention of a U.S. pastor (who was subsequently released). India and Turkey are challenging the Section 232 tariffs at the World Trade Organization (WTO), where the United States is challenging retaliatory action by some trading partners, including Turkey.

The United States and India have been in "intensive" negotiations to address bilateral trade frictions. India offered what it viewed as "a very meaningful way forward" on almost all the US requests," including proposals to open up its agriculture, milk, and poultry markets in response to the GSP review, but failed to allay U.S. concerns. Reportedly, a sticking point was [India's price controls](#) on medical devices. India's new e-commerce restrictions and data localization requirements add to frictions. Some Members of Congress and industry groups previously called for terminating India's GSP eligibility under the program's IPR criterion due to long-standing [concerns](#) about the country's IPR regime.

Following the President's announcement, [India's Secretary of Commerce](#) asserted that the "economic value of GSP benefits are very moderate" and GSP withdrawal "will not have a significant impact" on India's U.S. exports. He said U.S.-Indian relations "remain strong ... and discussions will go on." India reportedly plans to treat Section 232 tariffs and GSP issues [separately](#). [Turkey's Trade Minister](#) criticized the decision but stated that Turkey planned to continue efforts to increase its U.S. trade to \$75 billion "without losing any momentum." [Some observers](#) question whether the U.S. move might have been timed partly to try to get Turkey to abandon its purchase of Russian air defense systems. (See CRS Report R44000, *Turkey: Background and U.S. Relations In Brief*, by Jim Zanotti and Clayton Thomas.)

Outlook and Issues for Congress

Terminating India's and Turkey's GSP eligibility would increase tariffs on U.S. merchandise imports from these countries, [raising costs](#) for U.S. importers, including consumers and producers who use these imports as inputs. Yet, termination (or its prospect) could incentivize resolution of bilateral trade differences. For instance, a [U.S. business group](#) critical of India's trading practices asserted, "With the built-in lag of 60 days before these changes go into effect, India still has time to change course and make progress at the negotiation table before its trade benefits are impacted." India's general election in April 2019 may complicate any such negotiations.

Potential issues for Congress include the following:

- Would GSP eligibility termination help or hinder bilateral economic and diplomatic ties, and efforts to resolve bilateral trade frictions?
- Given the Trump Administration's focus on greater reciprocity in U.S. trade relations, how should the United States expand and strengthen trade and investment ties with India and Turkey? Is there potential for broader trade agreement negotiations?
- What issues does treatment of India and Turkey present for GSP in the context of a potential reauthorization debate?

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See CRS Report RL33663, *Generalized System of Preferences (GSP): Overview and Issues for Congress*, by Vivian C. Jones; CRS In Focus IF10384, *U.S.-India Trade Relations*, by Shayerah Ilias Akhtar and K. Alan Kronstadt; and CRS In Focus IF10961, *U.S.-Turkey Trade Relations*, by Shayerah Ilias Akhtar.

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